

HOUSING MAINTENANCE AND MANAGEMENT IN RUSSIA DURING THE REFORMS

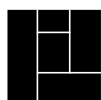
Prepared for

Housing Sector Reform Project
Project 110-0008
U.S. Agency for International Development, Moscow
Contract No. CCS-0008-C-00-2055-00, Task Order No. 9-11



Prepared by

Lisa Lee
Katya Petrova
Marina Shapiro
Raymond J. Struyk



THE URBAN INSTITUTE

2100 M Street, NW
Washington, DC 20037
(202) 833-7200
www.urban.org

November 1996
UI Project 06306-009-11

TABLE OF CONTENTS

ABSTRACT	i
1. INTRODUCTION	1
2. CASE OF MOSCOW	4
3. MAINTENANCE QUALITY	11
4. PRIVATIZATION OF MAINTENANCE AND CONDOMINIUM FORMATION IN OTHER RUSSIAN CITIES	14
5. CONDOMINIUM CREATION AND MANAGEMENT	17
6. CONCLUSIONS	18
REFERENCES	20

ABSTRACT

Primary objectives of the housing reforms in the Russian Federation were to reduce the balance of the state housing stock by privatization and to raise rental payments in order to permit the market to achieve a more efficient utilization of the housing stock by allocating available housing to those with effective housing demand. Part of these objectives also included improving the quality of maintenance in state housing by breaking up the monopolies of state maintenance firms and replacing them with private firms procured through competitive bidding procedures. Moscow, in particular, has been a forerunner in implementing housing reform policies, including shifting from state maintenance firms to contracted private ones. Using Moscow and other Russian cities as illustrations for reforms in maintenance and management brings to light the benefits of private maintenance and also problems which must be overcome, not only throughout Russia but in nearly all the countries of the former Soviet bloc. This presentation evaluates the institutional changes of maintenance and sources of funding for maintenance in Moscow during the reforms; shows evidence of improved quality of housing maintenance through the use of contracted private firms; and provides a general overview of competitive maintenance and condominium formation throughout Russia.

HOUSING MAINTENANCE AND MANAGEMENT IN RUSSIA DURING THE REFORMS

1. INTRODUCTION

At the beginning of the era of Russia's accelerated political and economic transition in the summer of 1991, the country's housing stock was characterized by an overwhelming state presence. Nationally, 67 percent of the stock was state owned--by either municipalities or state enterprises and governmental agencies.¹ In urban areas, 79 percent of the housing was owned by the state. In the largest cities, state ownership accounted for 90 percent of all units. The importance of state ownership of housing in Russia dwarfed the corresponding sectors in Eastern European countries at the beginning of economic reform. For example, in Hungary the state sector accounted for only 20 percent of the housing stock in 1989; Bulgaria, 9 percent; Poland, 34 percent (possibly plus 14 percent of units that were in rental cooperatives); and Czechoslovakia, 45 percent (Baross and Struyk, 1993: Table 1).

The attributes of the system which developed and maintained this system can be summarized as follows:

- Centralized distribution of all resources and strictly formalized planning of the volume and distribution of new housing construction;
- Use in practically all regions of the country of standardized multi-floor building construction plans, with the housing constructed by a small number of big kombinats;
- Extreme state monopolization of the construction complex and housing maintenance facilities;
- Financing of all state housing construction exclusively from centralized assets of the state budget or of state-run enterprises;
- Near-total subsidization of housing and maintenance organization activity through various forms of state funding;
- The constitutional guarantee of housing provision at a low cost (strong rent controls);
- The dominant role of a single, state-operated system for distribution of housing which operated through local and enterprises waiting lists.²

Obviously, dismantling this state-dominated system and replacing it with a market-oriented one would be a most formidable task. Early reforms had two decisive elements: a law permitting and encouraging mass privatization of housing (in the sense that sitting tenants could, under certain terms, claim the ownership of their unit); and, the shift of the ownership of the state housing stock to municipalities.

¹ Units owned by enterprises and government agencies are jointly referred to in Russia and in this article as the departmental housing stock.

² Descriptions of the Soviet housing system before the major reforms are provided by Andrusz (1990), Kalinina (1992), Bessonova (1992), and Ruble (1993).

The legal history of the transfer of state housing to local governments is tangled, and it was far from definitive in initially transferring control of housing from enterprises to the municipalities. However, as enterprises are fully privatized, their housing is removed from their balance sheets and usually transferred to local government.³ The overall result in general has been to place responsibility for housing provision closer to the people, with financial support from the federal government essentially disappearing except for certain groups such as retired military officers and victims of Chernobyl. The locus of housing policy responsibility has also shifted in part to regional and local governments.

The second initial policy change in the Russian housing sector was the privatization of state rental units. Tenants were given the opportunity to acquire their unit at little or no cost simply by requesting the transfer of ownership. A tenant who privatizes his unit receives full rights to dispose of it: the unit can be rented or sold in the open market without restriction. However, the new owners receive essentially no additional rights in determining who will manage the building and how much it will cost. The law "On Privatization of the RSFSR Housing Stock," passed by the Supreme Soviet in June 1991, mandated privatization of state-owned rental units (both municipal and departmental) to registered tenants. By the end of 1995 about 35 percent of state housing had been privatized.⁴

The Law on Fundamentals of Housing Policy, passed in December 1992, was the second major step in the transformation of the housing sector in general and the rental sector in particular. This legislation *inter alia* established a program to raise rental payments. Additionally, it introduced housing allowances, provided for improvement in maintenance of state housing through introducing competitive procurement procedures, reduced tenant rights by permitting eviction to low quality housing for non payment of rent, established condominiums, clarified property rights, and enhanced the possibilities for mortgage lending.

The two tracks of privatization and rent reform are closely related. Raising rents is critical to increasing the attractiveness of privatizing a unit. It is also the linchpin of sector reform, because raising rents permits the market to achieve a more efficient utilization of the stock by allocating available housing to those with effective housing demand. Higher rent revenues will support improved maintenance, which in turn will increase tenants' willingness to absorb further rent hikes. However, as recognized in the law, improvements in the quality of maintenance services only seems likely if the existing monopolies of state maintenance firms are decisively broken and replaced with procurement of services on a competitive basis.

Russian policy makers understood that rents could not be raised unless poor families were protected from the full impact of higher rents. Consequently, the Law on Fundamentals also created a housing allowance program, a program whose implementation was mandated to accompany each locality's initial rent increase.

The third phase of reform, beginning in the fall of 1993, might be termed the period of implementation. In November 1993, the Council of Ministers issued regulations for implementation of the program of rent increases and introduction of housing allowances. Presidential Decrees on mortgage finance and downpayment subsidies were issued. And the Ministry of Construction adopted a normative document on the procedures for holding competitions

³ For a brief summary of the transfer of housing to local governments, see Struyk et al. (1993) pp.21-23. See Struyk and Kosareva (1994), Chapter 4, for a discussion of the changing ownership pattern in housing that was departmental housing at the beginning of the transition.

⁴ For details, see chapter 4 of Struyk and Kosareva (1994).



among contractors to provide housing maintenance services for state or former state housing still assigned to ("on the balance of") municipalities or enterprises.

The program of phased rent increases and housing allowances was launched at the beginning of 1994 on a national basis. The timing of implementation has been uneven, as localities organized the new program at different speeds. Nevertheless, by the July 1995 government data showed that the rent-allowance program covered about 95 percent of population. Typically 5 to 10 percent of households in a city were receiving subsidy payments.

The introduction of the competitive selection of contractors has proceeded gradually throughout Russia. By the fall of 1996, over a dozen cities have held at least one competition. The process has been recently accelerated by a March 1996 Presidential Decree which ordered the Government to set a schedule for the transition to competitive procedures for the state housing stock.⁵ Moscow has been the leader in shifting from state firms enjoying a monopoly for maintaining several thousand units to contracting with private firms selected through open competition.

Formation of condominium and tenants' taking responsibility for management of their building is the second track for improving the quality of housing maintenance. The logic is that occupant-owners of a building will be more concerned about conditions than a state management company. A Presidential decree issued in December 1993 provided the initial basis for activating the relevant provision in the *Law on Fundamentals*. More comprehensive legislation was enacted in July 1996. Under these laws, formation of condominium associations has proceeded slowly, in part because of several key issues which had to be resolved by local governments, including defining registration procedures, the procedure for transferring management responsibility to the association, and determining whether condominiums would continue to receive municipal subsidies for upkeep and communal services.

This paper gives a description of the evolution in maintenance of the municipal housing stock in Moscow as well as an overview of competitive maintenance and condominium formation in other Russian cities. The experience of these cities, particularly in Moscow, is of general interest because it describes the types of problems that must be overcome not only in Moscow and the cities of the Russian Federation but also in nearly all the countries of the former Soviet bloc. Few Eastern European countries had made much progress by mid-1995 as Moscow (Struyk, 1996).

The presentation is in four sections. The first overviews the developments in Moscow. This section describes from an institutional perspective the evolution of maintenance of the municipal housing stock in Moscow from prior to the reforms to early 1996, as well as information on the levels and sources of funding for housing maintenance over the 1989-1995 period. The second section presents data on the quality of maintenance provided by newly introduced private contractors and by municipal firms from 1992 to 1995. The third section gives an overview of competitive maintenance and condominium formation throughout the Russian Federation. The final section offers conclusions.

2. CASE OF MOSCOW

Structural changes in management and maintenance of the housing stock in Moscow. As of January 1996, the housing stock of Moscow consisted of 169.6 million square meters, averaging to 19.7 square meters of total space and 12.5 square meters of living space per person. During 1991-1995, more than 3 million square meters of total space of housing had been constructed every year; the Moscow government similarly has provided for the commissioning of more than 3 million square meters in 1996.

⁵ "On Development of Competition in Maintenance and Repair of the State and Municipal Housing Stock," N.432, March 29, 1996.

Municipal districts remain the principal owners of the housing stock. In 1989, municipal districts accounted for 69.1 percent of the total housing in Moscow; in 1996 they possessed 75.5 percent. The increase in the municipal share has come at the expense of state enterprises, some of whom have divested their housing to the city over the period. At the start of 1996, 13.4 percent belonged to enterprises, ministries and departments; 10.8 percent to the housing construction cooperatives; and 0.3 percent of the housing stock was in individual private ownership, unchanged from 1989. By the beginning of 1996, the number of privatized units in Moscow reached 1.19 million, i.e. 40 percent of all apartments are privately owned by Muscovites.

Prior to 1991, management of the city's housing sector had been based on the principle of multi-level vertical structuring with rigidly centralized management functions. During this time, the management and maintenance of the city's housing stock had been provided by the Production Housing Repair Association (PREO), which had been the only structure to service the municipal housing stock within the territory of each municipal district, *rayon*. Prior to the reforms, Moscow had been divided into 36 rayons. The rayon-level PREO (having the rights of a non-independent self-accounting structural unit) had included:

- the repair and maintenance department
- emergency service
- the office of mechanized cleaning, and
- the capital repair section.

This structure of management had resulted in decision-making too slow to address problems in an efficient manner. Thus, at the end of 1991, the Moscow government had started a stage-by-stage decentralization of the management system in the housing sector. In 1992, these rayons were reconfigured to form 10 administrative districts, or prefectures, and within them a total of 124 rayons. The municipal residential and non-residential housing stock, formerly on the balance of the municipal housing maintenance departments (PREO), was transferred to the new enterprises at the reconfigured municipal district level -- Offices of the Unified Customer (DEZ), which were created to take over economic management of the housing stock. There was one DEZ and several contractor enterprises (repair and maintenance enterprises, power suppliers, etc.) in each rayon. The DEZes generally concluded contracts with the municipal repair and maintenance enterprises (REUs) for the necessary work on maintenance and repair of the housing stock. Each repair and maintenance enterprise was responsible for 4,000 - 6,000 units, and a DEZ for four to six of these enterprises.

Under these circumstances, REUs acquired the functions of maintenance contractors. Such delineation of the "customer" and "contractor" functions in Moscow allowed a shift to contractual relations between representatives of the owner of housing, the DEZ, and various repair and maintenance enterprises. This in turn made it possible to channel all financial resources to the customer, who could make payments for the work depending on its quality and in accordance with the contract.

The Office of the Unified Customer (DEZ) in each municipal district acts as a customer for different types of work. For this reason, "unified" does not denote a monopoly of one management entity. Instead, it presumes the transfer of all functions related to management of the housing stock to this organization. The management within each district of Moscow involves separation of the customer and contractor functions, as well as legal and financial independence of REUs and other contractors, thereby establishing prerequisites for demonopolization.

Thus, decentralization and improvement of the management in the housing sector were undertaken to ensure:



- separation of customer (DEZ) and contractor (REU) functions;
- business and legal independence of REUs;
- functioning of REUs on the basis of contractual relations with the customer, under agreements that include the delineation of functions, rights and obligations, financing of all work orders in full amounts, etc.;
- contract format of labor agreements with heads of departments and offices; and
- transfer of the functions alien to REU as a contractor to the DEZ as a management entity at the municipal districts level.

In practice, however, the agreements concluded between the municipal district DEZes and the repair and maintenance enterprises were formalistic; they were just bureaucratic documents which lacked the criteria for assessing the quality of the services provided by the contractors, as well as the procedure for exercising control over the contractors' activities. Because the REU retained full monopoly over its activities, there was no real control on the part of DEZ over the REU's performance. There has been no case of termination of any such agreement with a REU on the grounds of persistent violation of the quality standards by the latter.

Some of the DEZes assumed some of the functions characteristic of maintenance enterprises, relieving these enterprises from such duties as inspection for readiness for the winter season and current maintenance of the buildings and adjacent grounds. Such redistribution of functions resulted in the creation of additional management units and increased office staff within the DEZes and released maintenance enterprises from some responsibility for their primary work.

The final result was that maintenance of the municipal housing stock was not only costly, but also of very low quality. The survey of 2,000 Moscow apartments carried out in 1992 confirmed the high degree of residents' dissatisfaction with the quality of services rendered by the repair and maintenance enterprises.

Adoption of the national Law on Fundamentals of Housing Policy in late 1992 has provided for the improvement of housing maintenance and repair services by means of competitive selection of maintenance enterprises of any ownership. This provision was motivated by the lack of any mechanism in the existing arrangements to stimulate the maintenance complex to make more effective use of the funds they receive.

In March 1992, the Moscow government (represented by Premier Yu. M. Luzhkov) and the U.S. Agency for International Development signed an agreement on cooperation in housing sector reform, in which the principal emphasis was on improving the quality of maintenance and repair of the housing stock. Pursuant to this agreement, starting in March 1993, Moscow launched an experimental project to attract private companies on a competitive basis to maintain the housing stock.

In the early days of the experiment, doubts were expressed as to whether the existing private companies, which were very few at that time, would show sufficient interest in this field of activities. However, experience shows that despite the sometimes unstable financing allocated for maintenance and repair of the housing stock, the number of private companies in this emerging market has been growing rapidly; from 1993 to the end of 1995, the number of private companies servicing the housing stock in Moscow increased by 88 percent. Over 300 companies were officially registered in 1995.

Such growth has been largely a result of the following factors:

- growing awareness of the fact that a municipal order for such work will be stable over time, and the financing will become better and more stable with the implementation of the system of increasing rent and utility payments from tenants;
- profits obtained by contractors could be expanded by providing additional services to tenants for direct payments (e.g. moderate rehabilitation or bathroom repairs).

The private companies have an interest in efficient use of the allocated budget funds, and they can at their own discretion change staffing patterns and establish the rates for remunerating their personnel depending on the volume and quality of their work. Consistently, these companies both reduce management staff and expenses as well as hire qualified workers.

In 1995, 12 maintenance competitions were held in Moscow. The share of housing serviced by private companies winning these contests increased during 1995 by 4.6 percentage points. From implementation of the program to the end of 1995, a total of 33 contests in 29 municipal districts were held. On the basis of these contests, contracts were signed with 33 private companies and 3 municipal enterprises. "Packages" of units included in a contract were typically in the 2,000 to 8,000 range. By September 1996, the private companies were servicing about 350,000 apartments or about 14 percent of the Moscow's municipal housing stock.

The Resolution of the Mayor of Moscow No 312-PM as of June 30, 1995, "On improving the management and maintenance of the housing stock," contains a program of gradual transition by 1998 of the *entire municipal housing stock* to maintenance by enterprises selected exclusively on a competitive basis. This resolution also provides for attracting private companies to management of the housing stock on a competitive basis, which would permit creating an effective management system rather than just terminating the existing complete management control of the DEZes.

Selection of a property management company is to be made on the basis of a competition organized by the municipal district. The first competition was underway in May 1996. The company will deal with the same range of problems as the existing DEZes, but will use different organizational and economic instruments.

Payment is a key issue in shifting to a market-oriented management firm. The "manager's remuneration" will consist of a fixed amount and a variable portion dependent on the effectiveness in collecting rent and utility payments and the quality of maintenance services provided. Linking the remuneration to these important and concrete quantitative tasks not only identifies the problems which are of major importance to the owner of the housing stock, but also creates an incentive for the management company to perform with better quality the functions subject to bonus payments and penalties.

Overall, the extent of Moscow's adjustments in the organizational structure for the maintenance and operation of the housing stock has been impressive. The separation of the customer (DEZ) from the contractor was a critical innovation developed in Moscow without outside assistance. Additionally, the reforms established conditions under which has become possible the competition-based selection of first maintenance contractors and later firms handling the full range of management tasks.

Concurrent with the restructuring of management and maintenance was the possibility of establishing condominium. By the fall of 1994, a number of cities were creating their first condominiums. Unlike privatization of



maintenance, condominium formation has proceeded at a slow pace in Moscow. As of September 1996, there are 36 registered condominiums in Moscow. The benefits given to tenants in a homeowners association seem to be more advantageous than municipally owned privately maintained buildings because tenants have greater control over the property and management. In reality, condominiums in Moscow are faced with a variety of adversities erected by the municipality. The DEZs are generally reluctant to relinquish a share of its stock because, in doing so, they will forgo the associated revenues from maintaining the buildings. Currently, of the 36 formally registered condominiums, only 28 have assumed all management responsibilities for the buildings; the remaining eight condominiums have designated the DEZ as manager of their stock. The condominiums which have taken on management responsibilities have the freedom either to hire maintenance firms on a contractual basis, to perform maintenance themselves, or to transfer at a later date management responsibilities back to the DEZ.

At the same time, voluntary informal tenant associations have been developing in recent years for the purpose of improving maintenance. These tenant associations may be viewed as a precursor to condominium formation. At the beginning of 1996, an estimated 4 percent of households in Moscow reported living in buildings where such an organization exists. About half of these associations were formed in 1994 and 1995. While the highest incidence of the associations is in cooperatives, they are well represented in municipal and enterprise buildings.

The typical tenant association charges regular dues, hires people to do the work (rather than doing it themselves), and is most interested in improved security (the most frequently added service is a concierge to watch the entrance). All of this points to either a sense that former levels of service will not be restored or a patent dissatisfaction with whatever the State may supply, leading tenants to take the initiative to improve maintenance themselves. In any event, active tenants may be a necessary foregoer to the increasing formation of condominium associations and tenant-controlled management

Financial support for housing maintenance, 1989-1995. Financing housing maintenance has occupied a significant place in Moscow's budget. The percentage of these expenses in the budget has grown over time caused by higher inflation in this energy-dependent sector and at the same time by the decision made by the city authorities of the rate at which to increase maintenance fees in the total "rent payment" made by tenants. "Rents" include charges for maintenance and several communal services. Capital costs are not included, and fees for electricity and telephone usage are paid separately by tenants. Each tenant's rent bill enumerates the fees for each service. Under the program of rent increases begun in 1994, the City has discretion over the rate at which the different components of "rent" are increased. The City makes up the difference between the cost of providing the services and tenant payments through subsidy payments to each service provider, e.g. water service company or maintenance complex. So, in setting payment levels to tenants for each service, the City is also determining the amount of subsidy it will furnish to each provider. Over time, as rents have been increased, the City has varied the percent of tenant payments and subsidies for different services.

The 1996 Moscow budget allotted funds for the existing municipal housing stock amounting to 22.4 percent of the total budget, including 6.2 percent for maintenance and current repair, 5.8 percent for rehabilitation, 8.4 percent for subsidies for utility services, and 2 percent for other items.⁶

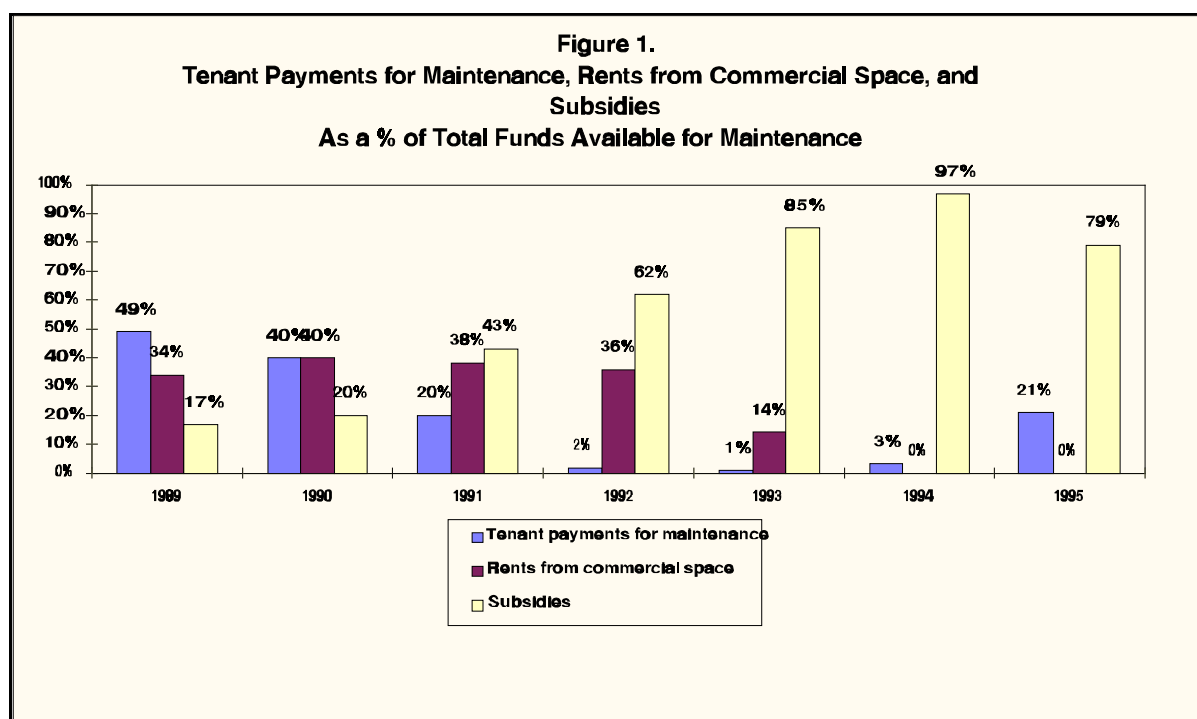
⁶ The true subsidies to residential tenants are much larger than indicated by the budget figures because higher tariffs are charged to commercial and industrial users to cross-subsidize residential consumption.

Expenditures for maintenance and current repair are determined by DEZ. Planning and accounting of the business and financial activities is made on the basis of the Offices' functions (budget lines for financing the housing stock):

- operations of the housing stock;
- rehabilitation of the housing stock;
- maintenance of outdoor improvements;
- rehabilitation of outdoor improvements;
- other works and services.

In order to determine the subsidy amount required for maintenance, the Offices work out an estimate of income and expenses for maintenance (the business financial plan). The expenses of the DEZ for maintenance of the housing stock include payments for the works on maintenance and servicing, sanitary cleaning and current repair of buildings and their engineering equipment, maintaining adjacent territories, and keeping of technical documents in order. The primary income of the DEZ comes from payments made by tenants for the provided services. The difference between the income and estimated expense amount then defines the amount of the subsidy that the DEZ will receive.

From 1989 to 1992, payments for leased non-residential premises made up a substantial share of the income for operation of the housing stock (from 34 to 40 percent). In 1994, DEZes were deprived of this source of income because it was channeled into general city revenues; and, thereafter, the DEZes' only income (besides subsidies) was residential tenant payments. The share of payments from tenants of the total funds available for maintenance from 1989 to 1991 was from 49 to 20 percent, went down to 2 percent in 1992, and only in 1995 increased to 21 percent with the introduction of rent reform in 1994 (Figure 1). In May 1996, resident payments in the municipal housing stock covered 16.3 percent of all current maintenance costs.



The dynamics of rental collections from the population and budgetary appropriations for maintenance of the housing stock for the period of 1989 to 1995 reveal patterns which indicate the City's decisions about the composition of rent payments made by tenants. Payments of the population in 1989 to 1990 amounted from 1 to 0.88 rubles per square meter per year; from 1991 to 1994, these payments declined further. Only in 1995 did they increase to 1.58 rubles per square meter per year.⁷ Furthermore, about one-third of all tenants are one or two months late in paying their rent. On the other hand, only about 2 percent are more than six months in arrears.⁸

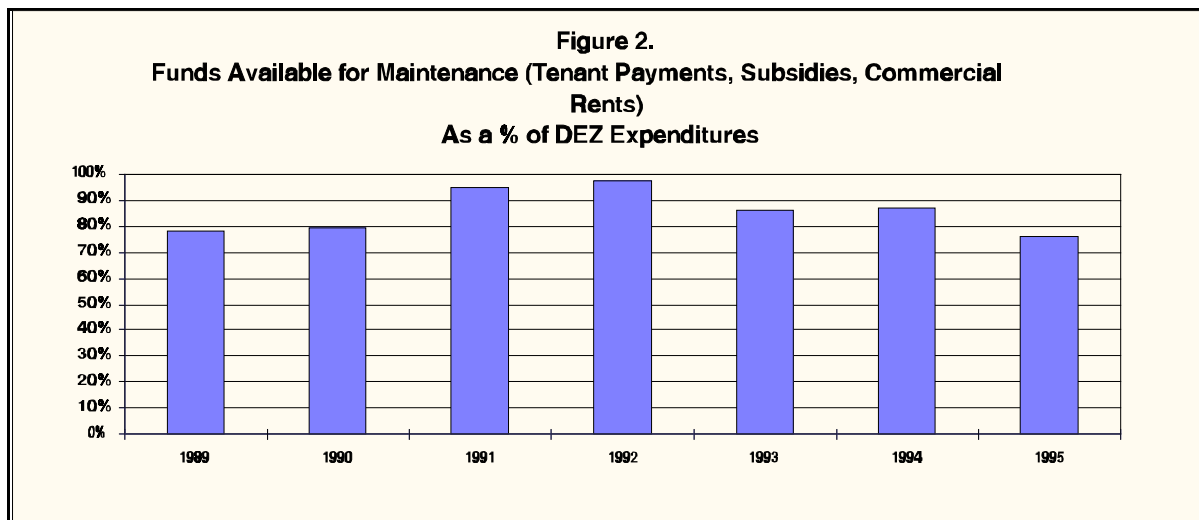
Unlike tenant payments, budgetary appropriations for maintenance showed a steady increase from 1989 to 1995. Budgetary appropriations for maintenance of the housing stock amounted to 0.3 and 0.44 rubles per square meter in 1989 and 1990, respectively, and starting with 1991 (0.64 rubles per square meter) showed steady growth and reached 5.76 rubles per square meter per year in 1995. However, although subsidies did increase about twenty-fold from 1989 to 1995 in real terms, the subsidies were not enough to compensate for expenses which were rising at an even faster rate. In 1989, the average income of the DEZes per 1 square meter of serviced space per year equaled 1.9 rubles, whereas expenses were 2.4 rubles. In 1993 and 1995, the equivalent figures were 2.81 rubles and 3.27 rubles; and 7.33 and 9.67 rubles, respectively.

During the whole period under consideration, expenses of DEZes for maintenance of the housing stock exceeded the funds allocated for this purpose by approximately 20 percent (Figure 2), and only in 1991-1992 was the gap smaller (6 and 2 percent, respectively). These shortfalls were paid out of the following year's resources. Because

⁷ All ruble figures in this paper are in constant 1989 prices.

⁸ Data are from the computation center within the municipal level Department of Engineering Provision.

no account seems to be taken of the possible shortfall in preparing the next year's budget, the funding crisis rolls forward. The size of the real increase in payments suggests that constantly increasing real spending and running big deficits has been an effective strategy in the housing management function capturing a larger share of the city budget.



However, even though the real resources available to the DEZes for maintenance actually increased significantly over the period, the budgeting procedures which increased appropriations to maintenance had been absolutely ineffective in improving the efficiency and quality of maintenance service because

- municipal maintenance enterprises had no incentive to improve the quality of their performance as they were sure to receive subsidies in the fixed amount regardless of the quality indicators of their activities; and
- budget appropriations had been planned largely on the basis of the amounts shown by the preceding period, adjusted over-generously for inflation.

This situation has produced the urgent need for alternative incentives for residential property management enterprises (private companies) which could create real competition with the DEZes, thus demonopolizing the city's housing sector and improving its management structure and effective use of budgetary funds. In fact, restrictions on the activities of the unified customer services (DEZes) had slowed down possible innovation. Many DEZ leaders are now ready for restructuring the management of the housing stock into new organizational forms. Moreover, with the large increase in real funding for maintenance during the transition, the strong response by private firms to compete for this work is completely understandable.

3. MAINTENANCE QUALITY

Proof of the success of the housing reforms rests in the improvement of quality in maintenance since the inception of the changes. The evidence comes from an analysis of maintenance quality of housing for which private management has assumed maintenance responsibilities by means of the competitive bidding process. The analysis

was conducted based on the maintenance pilot program in Moscow undertaken in 1992 and 1993.⁹ Surveys specially designed to evaluate maintenance service quality as reported by tenants were conducted before and after the introduction of the private maintenance firm which was awarded the maintenance contract under competitive bidding. In particular, eleven maintenance service categories were evaluated as well as timeliness and satisfaction of minor repairs. Standard statistical tests were employed to detect significant changes in the quality of services provided before and after the private firms assumed maintenance responsibilities.

Two separate maintenance competitions were held in March and September of 1992 as part of the pilot program. In the competition for the March buildings, three private maintenance firms out of eleven formal bids were awarded one-year contracts; two private firms out of five formal bids were awarded one-year contracts for the September buildings.

The performance of the private maintenance companies associated with the March competition was evaluated using the "base-line" survey conducted prior to the contract start dates and two follow-up surveys conducted in May and November. Similarly, the September buildings were interviewed first in September and again in January.

Results from the March buildings indicated an overall improvement in nine of the eleven maintenance services evaluated. The two services which showed no change in improvement from March to May were those concerning the building security system and toilets in the flats. However, these two areas of maintenance may have required fairly large capital repairs beyond the firms' financial means or terms of contract.

Data from the second period from May to November show that six of the eleven categories worsened. However, evaluating the net change in performance levels from March to November reveals that five maintenance services showed significant improvement and that four services showed no net change. Also, there was a decided improvement in quality of repairs from March to November. The two maintenance categories which showed a net decline in quality from March to November were services involving the security system and cleanliness around the refuse chute. The security system, as addressed previously, may have been outside the firms' scope of work or capabilities in terms of time and/or budget constraints. Maintenance of refuse chute areas, however, was a clear responsibility of the private firms, and the results indicate poor performance in this one service. Notwithstanding this one delinquency in service, overall performance by the contracted firms proved to be better than that previously provided by the REUs.

The decline in performance from May to November should not be attributed only to faulty performance of the contracted maintenance firms. Culpability for the deterioration of services rests in two critical factors for which the owner (DEZ) had responsibility. Monitoring of performance, which is key to ensuring the high quality of service specified in the contract, was spotty; on-site inspections of the conditions of buildings and grounds were rarely performed. Adverse effects of this weak monitoring may have developed, as the contractor discovered that poor performance went unpenalized. A further complication was that the DEZ was consistently tardy in its payments to its contractors after the first four months. Contractor performance may have worsened after their having realized that the contract specifications were not strictly adhered to by the DEZ, and thus contractors may have drawn the conclusion

⁹ See Angelici, Struyk, and Tikhomirova for a more detailed description of the maintenance pilot program in Moscow. Note that the questions were highly concrete. For example, one question asked how often in the last month the lights in the apartment's hallway had not been working, with separate answers for different periods of time, e.g., work always to never worked. Question inquiring about "satisfaction" were generally avoided because changes in respondents' expectations over time can make the answers very difficult to interpret.

that rigid compliance with the contract was no longer necessary. Furthermore, in 1993 inflation in Russia ran at an annual rate of about 850%. Hence, delays in payments meant a reduction in the real value of payments received compared with the amount specified in the contract, thereby further exacerbating the effects of the DEZes' payment arrears. Both of these problems since have been resolved through a combination of contract amendments, development of performance standards, and changes in the routing of payments to contractors.

Results from the September buildings were ambiguous. The reason is that the September buildings were consistently of high quality construction relative to the entire Moscow housing stock; they had belonged to the USSR (later Russian Federation) government and were used to house some of the nation's elite, prior to their transfer to the Moscow city government in 1992. Furthermore, they had been managed by the Department of High-Rise Buildings and had been maintained by the department's own maintenance organization rather than by municipal maintenance organizations. Therefore, a conclusion is difficult to formulate which assesses the quality of maintenance given by the private firms relative to that provided by standard municipal maintenance organizations. In eight of the eleven maintenance service categories evaluated, a significant improvement was made; however, tenant satisfaction with repairs showed a slight decline over the period. The high quality of maintenance previously provided by the departmental organization denotes that the private firms may be at least maintaining an overall level of performance that is on par with the high standards of the departmental maintenance organizations.

Further testimony to improved maintenance quality is also exhibited for the entire municipal housing stock. Analysis on REU-maintained housing was conducted using the Moscow Longitudinal Household Survey from 1992 to 1995 (Lee et al., 1996). The survey instrument posed questions on maintenance and repairs identical to those in the Moscow Pilot Program. In all general maintenance categories examined except one, a net improvement in the quality of service was made from 1992 to 1995. And in nearly all categories, there has been a steady improvement in maintenance in each year. The results on maintenance repairs do not show as clear an improvement as general maintenance. Although, timeliness of repairs showed significant improvement from 1992, overall satisfaction with repair work did not show a similar increase. In fact, there was a significant decline from 1992 to 1993 in the quality of repairs, followed by a recovery to the level of satisfaction of 1992. An explanation for the deterioration of repairs most likely results from the reduction in funds for maintenance; at the beginning of 1993, funding as a percent of expenses had declined 12 percentage points from 1992. The quality of repairs may have been affected adversely due to a lack of funds for repairs to be made; survey data indicate tenants frequently having to supply parts for repairs to be made. Conversely, general maintenance, being largely labor-intensive may not have been influenced by the lack of necessary equipment.

The general quality of maintenance for the REU-maintained stock appears to have improved steadily from 1992 to 1995 even in the face of rising expenses. Why so? First, while revenues relative to expenditures did decline, there were significant increases in real ruble funding per square meter over the period. Second, improvement could be attributed to implicit competitiveness. The introduction of competitive maintenance has posed a threat to REUs and has spurred them to improve their quality of service in attempt to ensure their continued existence. Senior officials responsible for housing maintenance in Moscow informed us that they knew of cases in which Subprefects used threats of competition to set improved performance.¹⁰ Third, it is important to recognize that maintenance was dramatically *overfunded* during the Soviet era. The housing maintenance "branch" worked steadily over many years to inflate the amount of resources necessary to perform their job; indeed this pattern appears to continue. These "normatives"

¹⁰ Discussion with L.U. Kuznetsova and Y.M. Medvedeva, Department of Engineering provision, City of Moscow, May 1996.



produced large payments, and the monopoly conditions resulted in few services. The fact that better work is being done by public and private firms at a smaller percentage of the normative costs is consistent with this story.

An alternative, and not mutually exclusive, explanation is that services actually have *not* improved but tenant (and survey respondent) expectations have decreased. Even though the questions asked in the survey were structured to deal with objective facts, it is nevertheless possible that expectations influenced responses. Data consistent with this position is the formation in recent years of the voluntary informal tenant associations to improve maintenance. Tenants may have been so discouraged with the management and maintenance, not expecting that conditions would improve shortly; and thus they have taken matters into their own hands by providing and paying for additional or improved services.

4. PRIVATIZATION OF MAINTENANCE AND CONDOMINIUM FORMATION IN OTHER RUSSIAN CITIES

Competitive maintenance generally has not been as widely implemented in other Russian cities as it has been in Moscow. Only about 13 Russian cities outside of Moscow are known to have had any maintenance competitions. Not including Moscow, about 100,000 units throughout Russia currently are maintained by maintenance firms contracted through competitive bidding (Table 1). About 45 percent of these units, not including Moscow, are being maintained by private or joint-stock maintenance firms. (Including Moscow, this figure is 85 percent).

Table 1
Maintenance Competitions in Russia as of September 1996

City/Region	Number of Competitions Held	Number of Units Under Contracted Maintenance
1 Arzamas region	1	1872
2 Bor	1	2664
3 Cherepovetz	1	160
4 Ekaterinburg	2	34726
5 Moscow	40	350000
6 Nizhny Novgorod ^a	10	6000
7 Novocherkassk	2	2992
8 Novosibirsk	7	10730
9 Orenburg	2	5305
10 Petrozavodsk	2	12739
11 Ryazan	3	14954
12 St. Petersburg	1	134
13 Vladimir	2	5728
14 Volkhov	2	2255
Total	76	450259

Note:

Not all 10 competitions held in Nizhny Novgorod were successful in procuring a contractor, and the number of units under contracted maintenance is an estimate.

Attempts to introduce competitive maintenance is being met by many adversities throughout Russia. Many Russian cities have not been as successful as Moscow in restructuring their organization of housing management and maintenance as a result of deliberate obstacles set by opponents of reforms within the city administrations. In some cities, the proper entity which would serve as owner, or customer, of the housing stock is absent or ill-defined, thus making competition difficult due to lacking incentives to improve maintenance. Additional complications have included the deficiency or non-existence of contractual agreements between customer and contractor, thus failing to define clearly accountability, remuneration or job responsibilities.

Problems in identifying a unitary owner of the housing stock were exhibited in the city of Vladimir. In February 1995, an attempt to reform the management structure was demonstrated in the creation of the Customer Service which was intended to serve as the single municipal enterprise acting as the owner of the housing stock. Soon after the creation of this department, the first competition was held in July 1995. However, some problems soon became evident concerning the creation of the Unified Customer because the previous management structure had not been restructured upon the department's creation, thus resulting in confusion about responsibilities and at the same time raising costs. Furthermore, the Unified Customer was converted from a department within the city administration into a municipal enterprise which resulted in no single structure acting as an owner (i.e., no one could determine new tariffs for rent and utilities payments). As a result, the City Duma decided to abolish the Customer Service and to reinstate



the structural unit of the city administration in the form of the Committee for Housing and Communal Economy. Later, the city created a new unified customer service which takes responsibility for enterprise housing transferred to the city.

Similarly, the experience in St. Petersburg serves as a more complicated example of the problem associated with the lack of a single ownership entity as well as other problems encountered in the movement toward competitive maintenance. An order was issued by the Committee on Management of Urban Housing (KUGKh) to carry out experimental projects on repair and services of residential buildings by maintenance enterprises selected on competitive bases in two districts of the city. However, the confusion created by the lack of any single ownership entity of the designated stock delayed these maintenance pilot programs for over a year. The KUGKh does not own the housing stock or act as the owner in its name; and accordingly it cannot act as customer for carrying out maintenance and repair work on the housing stock.

In St. Petersburg, the Housing Stock Maintenance Committee (UZhKhB) is the municipal-level organization responsible for management and maintenance of the housing stock; the UZhKhB are the management bodies of the district administrations who could effectively preside over competitions within districts. Reorganization of management and transferring of power to the district level UZhKhB would be an ideal solution to the problem of ownership. However, the municipal level committee was adamantly opposed to decentralization of the existing management structure. Thus, determining which entity would organize the competition remained the main obstacle to holding a competition. In the end the organizer of the competition was finally settled upon to be UZhKhB, and the competition finally took place in July 1996.

A further obstacle to competitive maintenance is the poor quality and small packages of housing included in some competitions. In St. Petersburg, the housing stock which had been allocated for the pilot program was very small (134 units) and extremely poor in quality, thus dissuading most maintenance enterprises from competitively bidding for the buildings. Poor quality buildings are selected by the local administrations because of their high maintenance costs. This in effect permits the existing municipal maintenance organization to maintain control over the housing by discouraging other firms from competing.

In the event, the outcome of the St. Petersburg competition was particularly interesting because one municipal maintenance firm undercut the price offered by the rayon administration in order to win the competition against three private firms. The result proved that the municipal maintenance firms after re-organizing their operations believed they could offer better quality services at lower costs. Thus, although competitive bidding for maintenance in St. Petersburg was held with much reluctance, there was a positive outcome for the rayon. And although the municipal maintenance firm now has to work at competitive prices, it has been able to conclude the contract for its continued work.

A third example of resistance by municipal maintenance organizations was exhibited in the city of Ekaterinburg where the old district maintenance organizations were dilatory in providing technical building information on sites being bid for in the second competition thus making it difficult for potential bidders to evaluate the costs associated with maintaining the stock.

Conversely, municipal maintenance firms in some Russian cities have not been so averse to the idea of competitive bidding. Instead, they regard the procedure as an opportunity for reform of their organizational structure. In Orenburg, during preliminary discussions about a maintenance competition, one maintenance enterprise expressed excitement at the prospect of being able to make money and restructure its organization based on its own ideas rather than on normative standards. Although such an attitude has been uncommon among municipal maintenance

enterprises, competitive maintenance will eventually leave little choice to these enterprises but to take advantage of the freedom of reorganization in order to remain competitive with the growing number of private maintenance firms.

5. CONDOMINIUM CREATION AND MANAGEMENT

In contrast to the slow development of competitive maintenance, condominium associations have been developing somewhat more rapidly throughout the Russian Federation after a slow start. A survey of 39 cities and oblasts, including Moscow, in September 1996, reveals that over 500 condominium associations have been created in these localities. Six of these cities (Nizhny Novgorod, Moscow, Omsk, Perm, Ryazan, and St. Petersburg) report to have well over 30 registered. Because the survey covered cities accounting for less than half of all privatized units, the total number of condominiums presumably is substantially larger.¹¹ In many cities, tenants have taken the initiative to form condominium associations without any technical assistance. Nevertheless, even 1,000 buildings in condominium form is still a tiny share of the housing stock.

Generally, tenants have not been very receptive to the idea of homeowner associations in order to have greater control in improving their housing situation. A concentrated effort under the USAID Housing Sector Reform Program in 1995-1996 in seven cities to promote formation of associations in specially selected buildings met with little success. Tenants are deterred from forming an association upon discovering that the costs and responsibilities that they will incur in improving and maintaining the building are beyond their means. Typically, formation of a condominium is easier to accomplish in new construction housing or in a cooperative where all residents are owners from the onset or in multi-family housing where nearly all of the units have been privatized. Often in new construction housing, maintenance has not been allocated to municipal or departmental maintenance firms; developers set up associations and maintenance decisions must be made by tenants from the start.

Condominium associations have sometimes performed more than maintenance and repair tasks. Evidence of this type of initiative is seen in Ekaterinburg where one condominium association decided to finance the building of a pool and sauna for its members. In reality, such activity is not practical for most associations but it does set the example that the capabilities of a condominium association may extend beyond routine maintenance and repair tasks.

Although the formation of condominiums has been steadily increasing, a number of problems still impede growth. Determination of ownership and responsibility of commercial space and existing infrastructure (such as gas pipes) between the association and the city is often unclear. Furthermore, receipt of maintenance subsidies has been problematic for some associations, where local administrations have denied subsidies due to budgetary constraints or other reasons. While this problem should have been resolved by the 1996 legislation, the bad experience of early associations will be known to other tenant groups.

6. CONCLUSIONS

Reform of Russia's housing sector has been directed, in part, at improving services provided from the existing housing stock, absent capital investment. The fundamental strategy of the reforms is to introduce competition among service providers and to improve oversight of contractors by those government agencies charged with the role of the "owner." Even in Moscow, where there has been impressive progress, still less than 20 percent of the municipal housing stock is under competitive maintenance and competitive management is just beginning.

¹¹ Based on data from Goskomstat (1996).



In other cities of Russia and throughout most of the former Soviet bloc, reform in housing maintenance and management has proven even more intractable than in Moscow. After four years of reforming work in the sector, we believe several conclusions can be drawn regarding reorganization of maintenance and management.

1. *Begin by clearly separating the roles of the "customer" or "owner" from that of the contractor.* In Russian cities outside of Moscow this innovation has been strongly resisted by maintenance organizations as they understand that implies initiation of a greater degree of accountability. However, if this separation of functions is not done well, the result of introduction of competitive maintenance may well be weakened, thereby undermining further reform.
2. *Introduce the competitive selection of firms to carry out maintenance and other well defined tasks (care of elevators, trash removal) initially and monitor and document this experience for a year or two before contracting for full housing management.* This approach seems wise for two reasons. First, it is important to establish the credibility of the new system on limited tasks before proposing new firms compete to take over more complex ones. Second, it may often be necessary to develop capacity. Private firms have the capability of handling the limited tasks, and experience in Russia and elsewhere shows that even for the first competitions there will be sufficient competitors. Full housing management is a much more complex task. It is likely that firms new to operating housing will take some time to acquire the experience that will put them in the position to take on the challenge of full property management.
3. *Rigorous procedures for monitoring contractor performance and for resolving disputes between the customer and contractor should be in place from the outset.* Nearly all contractors will succumb to doing poor work if the condition of the property (i.e. the results of their work) is not carefully monitored. Since such monitoring has typically been woefully neglected in the past, reformers will have to make real efforts to create the necessary procedures and standards and to insure that they are followed by the customer. Similarly, one can anticipate that disputes may arise between the customer and the contractor over the quality of work delivered; the procedures for adjudicating these in a fair and efficient manner should be indicated in the contract. Apparent arbitrary treatment of contractors can undermine the willingness of firms to participate.
4. *Local governments must pay contractors the agreed upon fees on the schedule in the contract.* Timely payment is essential to maintaining contractor interest. Many countries in the region have moderate to high inflation rates: delayed payments mean substantially lower real payments for services performed. In some Russian cities, authorities have had to dedicate certain revenues to pay the private contractors to induce the contractors to sign maintenance contracts. The fall off in contractor performance for Moscow's "March buildings" bears witness to the problems engendered by late payments and lack of a dispute resolution mechanism.
5. *The "normatives for maintenance" developed under the old regime are probably meaningless and are best ignored in practice.* Because of severe budget constraints, the normatives are not being followed in most cities. But they still exist officially. Evidence on the high quality of work done by competitively selected contractors for fees dramatically lower than the normatives should be used as the basis for eliminating them. Over time, one expects maintenance fees to decline even further as competition among firms results in lower offer prices.
6. *Understand at the outset that reforming housing management is a process that will take time.* Compared with other Russian cities and many in other parts of the former Soviet bloc, Moscow has moved with celerity and agility in reforming its program for maintaining municipal housing. Yet, as noted, only after four years are

impressive results visible. And even in Moscow, resistance persists among the Prefects of some of the City's ten Administrative Districts and among many DEZ chiefs.

At the same time, condominium formation offers a tremendous opportunity improving tenants' control over maintenance and improving its quality. Passage of comprehensive legislation in 1996, which dealt with many transition problems identified in the previous two years should improve the environment for association creation. Nevertheless, normative documents regarding condominium formation must be established at the local level which clearly define procedures for the allocation of land and access to maintenance subsidies. Only under these circumstances can condominium associations continue to grow successfully.

In short, experience in Moscow and other Russian cities shows that the road to reform will typically be contested and progress will come in fits and starts. On the other hand, the rewards of implementing reform are large: maintenance fees that may well be less than half of the normatives, a much higher level of services provided to the tenants, and an improved living environment for the population.



REFERENCES

Andrusz, G. (1990) *Housing Policy in the Soviet Union*, in J.A.A. Sillince (ed.) Housing Policies in Eastern Europe and the Soviet Union. London: Routledge, pp. 228-358.

Angelici, K., R. Struyk, and M. Tikhomirova (1995) *Private Maintenance for Moscow's Municipal Housing Stock: Does It Work?* Journal of Housing Economics, vol. 4, no. 1, pp 50-70.

Baross, P. and Struyk, R. *Russia's Transformation of the Housing Sector: Comparison with Eastern Europe*, Cities, summer 1993.

Bessonova, O. (1992) *The Reform of the Soviet Housing Model*, in B. Turner, J. Hegedus, and I. Tosics (eds.) The Reform of Housing in Eastern Europe and the Soviet Union. London: Routledge, pp. 276-89.

Collins, P. (1996) *Promoting Efficient Operation in Divested Russian Enterprise Housing: A Mid-Course Assessment*. Moscow: Urban Institute Technical Cooperation Office, processed.

Goskomstat State Committee on Statistics (1996) *Privatization of the Housing Stock as of January 1, 1996*.

Lee, L., M. Shapiro, K. Petrova, and R. Struyk (1996) *Evolving Housing Maintenance and Management in Moscow, 1991-1996*. Moscow: Institute for Urban Economics, Paper presented at the European Housing Research Network Meetings in Denmark.

Ruble, B. (1993) *From Khrushcheby to Korobkt*, in Wm. C. Brumfield and B. Ruble (eds.) Russian Housing in the Modern Age. Cambridge: Cambridge University Press, pp. 171-210.

Struyk, R. (1996) "The Long Road to Reform," in R. Struyk (ed.), *Economic Restructuring in the Former Soviet Bloc: The Case of Housing*. Washington, DC: The Urban Institute Press, pp. 1-70.

Struyk, R. and N. Kosareva (1994) *The Russian Housing Market in Transition: 1991 - 1994*. Moscow: Urban Institute Technical Cooperation Office.